

**STATEMENT ON THE ROBUSTNESS OF THE ESTIMATES
AND THE ADEQUACY OF THE RESERVES**

Introduction

This statement is given in respect of the 2019/20 Budget Setting Process for Tonbridge and Malling Borough Council. I acknowledge my responsibility for ensuring the robustness of the estimates and the adequacy of the reserves as part of this process. The budget has been prepared within the context of a Medium Term Financial Strategy (MTFS) spanning a ten-year period.

The MTFS sets out the high level financial objectives the Council wishes to fulfil over the agreed time span. This includes achieving a balanced revenue budget by the end of the strategy period and to retain a minimum of £3.0m (was £2.0m) in the General Revenue Reserve by the end of the strategy period. The MTFS also sets out, based on current financial information, not only the projected budgets for the period, but also the levels of council tax that are projected to be required to meet the Council's spending plans.

By way of context, since 2010/11 the Council has seen its local government finance settlement (core funding) decrease by some 65% or £4.3m (from £6.6m to £2.3m in 2019/20). The fall in core funding is, in part, negated by the grant award under the New Homes Bonus (NHB) scheme which in 2019/20 is around £3.5m. However, NHB funding is expected to fall sharply in future years as the changes made to the scheme work their way through the system, and the high levels of housing growth seen in recent years fall out of the calculation. In due course, assuming no further changes are made to the scheme, it is estimated that NHB could be in the order of £1.8m and where NHB remains at risk indefinitely. It is our ambition to restructure the MTFS so it is not as reliant on NHB or its replacement.

It can be seen from the above that the ongoing reduction in government grant funding has and continues to place ever increasing pressure on the Council's finances where latest projections point to a 'funding gap' between expenditure and income of £550,000 to be addressed over the period of the MTFS.

Funding beyond 2019/20 dependent on the outcome of the 2019 Spending Review and the Fair Funding Review and what happens to NHB. How we will fair at the end of that process is extremely difficult to predict at this stage. As a result the year 2019/20 could be seen as a holding year. We do believe that our MTFS is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way, but this is becoming progressively more difficult.

Alongside the MTFS sits a Savings and Transformation Strategy. The purpose of the Strategy is to provide structure, focus and direction in addressing the financial challenge faced by the Council. In so doing, it recognises that there is no one simple solution and as a result we will need to

adopt a number of ways to deliver the required savings and transformation contributions within an agreed timescale.

Robustness of Estimates

The aim of the Medium Term Financial Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities and takes us into the future. It is a Strategy that is adopted by Members of the Council alongside the Budget to provide a forward looking context for the consideration of the budget year ahead. It also provides the Council's Corporate Management Team with a tool for strategic financial planning and decision making.

Underneath the Strategy sits detailed estimates formulated in conjunction with Service Managers who carry responsibility of delivering their area of service within budget provision. The estimates take into account past outturn, current spending plans and likely future demand levels / pressures.

Factors taken into account for the 2019/20 Budget Setting Process and in developing the Strategy are:

Corporate Strategy	The Council's financial plans should be in support of its strategic priorities and objectives set out in overview in the Corporate Strategy . The Strategy sets out Our Vision: <i>To be a financially sustainable Council that delivers good value services, provides strong and clear leadership and, with our partners, addresses the needs of our Borough</i> guided by the following core values: Taking a business-like approach; Promoting fairness; Embracing effective partnership working; and Valuing our environment and encouraging sustainable growth.
Consultation with Non-Domestic Ratepayers	The Council consults representatives of its non-domestic ratepayers about its expenditure proposals who may make written representations if they deem it appropriate. No such representations have been received.
The level of funding likely from Central Government towards the costs of local services	Our Settlement Funding Assessment (SFA) for 2019/20 is £2,264,850. This represents a cash decrease of £631,546 or 21.8% when compared to the equivalent figure in 2016/17 (year 1 of a 4-year settlement).
New Homes Bonus	Our New Homes Bonus (NHB) for 2019/20 is £3,457,428. NHB funding is expected to fall sharply in future years as the changes made to the scheme work their way through the system, and the high levels of housing growth seen in recent years fall out of the calculation. In due course, assuming no further changes are made to the scheme, it is estimated that NHB could be in the order of £1.8m. It is our ambition to restructure the MTFS so it is not as reliant on NHB or its

	replacement. For medium term financial planning purposes we have assumed there will continue to be some form of performance funding, but at a much reduced level.
Business Rates	For medium term financial planning purposes beyond 2019/20 we assume that the business rates baseline attributed to Tonbridge and Malling under the Business Rates Retention Scheme is not notably different to the actual business rates income. If our actual income is less than the baseline set the authority may have to meet a share of that shortfall.
Overall Grant Funding	For medium term financial planning purposes, from 2020/21, it is assumed that overall grant funding whether that be baseline funding level, some element of growth performance, NHB or its replacement will add up to around £2.4m. If overall grant funding is in excess of £2.4m which at least in the early years we hope it could be, sums over and above this amount could be used to establish a 'stabilisation reserve' going forward to assist in meeting future saving and transformation contributions and or help manage risk. This will need to be revisited following the outcome of the 2019 Spending Review and Fair Funding Review.
Council Tax Base	The Council Tax Base for 2019/20 is 50,820.61 band D equivalents with an expectation that this will increase by 4,950 over the strategy period, or 550 per year.
Local Referendums to Veto Excessive Council Tax Increases	The Secretary of State will determine a limit for council tax increases which for 2019/20 has been set at 3%, or more than 3% and more than £5. If an authority proposes to raise council tax above this limit they will have to hold a referendum to get approval for this from local voters who will be asked to approve or veto the rise. Due regard has been taken of the guidelines issued by the Secretary of State. The MTFS reflects an increase in council tax of 2.99% in 2019/20 followed by an increase of £5 year on year thereafter.
The Prudential Code and its impact on Capital Planning	Tonbridge and Malling is a debt-free authority and projections suggest that recourse to borrowing to fund capital expenditure is unlikely before 2025/26. A key objective of the Prudential Code is to ensure, within a clear framework, the capital investment plans of local authorities are affordable, prudent and sustainable.
The Council's Capital Strategy and Capital Plan	Other than funding for the replacement of our assets which deliver services as well as recurring capital expenditure, there is now an annual capital allowance for all other capital expenditure. In 2019/20 and for one year only the annual allowance is £525,000 returning to £200,000 over the remainder of the capital plan review period 2020/21 to 2024/25.

Treasury Management	<p>A Treasury Management and Annual Investment Strategy is adopted by the Council each year as required by the Local Government Act 2003 as part of the budget setting process. The Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. Council in October 2018 adopted the updated Treasury Management and Prudential Codes of Practice published by the Chartered Institute of Public Finance and Accountancy in December 2017.</p> <p>The focus of both updates is to ensure the risks associated with investment in 'non-financial assets which are held primarily for financial returns' are properly evaluated, reported, subject to scrutiny and managed over time.</p> <p>The requirements of the updated Codes of Practice have been taken into account and reflected as appropriate in the annual review and update of the Capital Strategy and in preparing the Treasury Management and Annual Investment Strategy for 2019/20.</p>
Interest Rates	<p>Interest returns on the Council's 'core funds' have been set at 1.23% in 2019/20 rising gradually to 3.75% over the medium term. In setting these rates due regard has been taken of the interest rate forecasts of the Council's independent Treasury Adviser, Link Asset Services. To put this into context, 0.25 of a percentage point would currently generate investment income on our 'core funds' of about £43,000. Conversely, a dip in investment returns would have a negative impact on the Council's budget. The Council has chosen to retain a minimum of £3m in its General Revenue Reserve in order to deal with, amongst other things, interest rate volatility.</p>
Property Investment Fund/s	<p>The Council has recently taken the decision to invest in one or more property investment funds with further investment of proceeds from the sale of certain Council owned assets expected in the near future. In order to guard against downward fluctuations in property values a Property Investment Fund Reserve is to be established.</p>
Adequacy of Reserves	<p>At the beginning of 2019/20, we anticipate that the General Revenue Reserve balance will be £6.75m. The Adequacy of Reserves is discussed in more detail below.</p>
Pay and Price Inflation	<p>The estimates provide for a 2.5% pay award in 2019/20 and again in 2020/21 followed by 2% year on year thereafter and price inflation of up to 3% in 2019/20 followed by 2% in subsequent years. Except the new waste services contract where price inflation is set at 4%.</p>
Fees and Charges	<p>As has been the practice for a number of years now the objective has been to maximise income, subject to market conditions, opportunities and comparable charges elsewhere.</p>

Emerging Growth Pressures and Priorities	The projections within the MTFS include all known and quantified priorities and growth pressures that we are aware of at the present time. New priorities and growth pressures will undoubtedly emerge over the period and in consequence, the Strategy will be updated at least annually.
Financial Management	The Council's financial information and reporting arrangements are sound and its end of year procedures in relation to budget under / overspends clear. Collection rates for council tax and NNDR remain good. Our external auditor (Grant Thornton UK LLP) following the 2018 audit concluded that although the Council faces significant pressures it continues to have a robust financial planning framework.
Insurance Arrangements and Business Continuity	Risks identified via the preparation of Service / Section Risk Registers have wherever possible been reduced to an acceptable level. Any remaining risk has been transferred to an external insurance provider. In addition, specific arrangements are in place to ensure the continuity of business in the event of both major and minor disruptions to services. As insurance premiums are reactive to the external perception of the risks faced by local authorities and to market pressures, both risks and excess levels are kept under constant review. The Council recognises that not all risks are financial; and takes into account all risks when making decisions.
Corporate Governance and Risk Management	The Council has adopted a Local Code of Corporate Governance based upon the requirements of the CIPFA/SOLACE Corporate Governance framework. This incorporates Risk Management and the Council is committed to a Risk Management Strategy involving the preparation of Risk Registers at both strategic and operational levels.
Equality Impact Assessments	Where there are deemed to be equality issues as a result of adjustments to revenue budgets a separate equality impact assessment has or will be undertaken at the appropriate time. In addition, an equality impact assessment is undertaken and reported to Members prior to commencement of a new capital plan scheme.
Partnership Working	The Council is working in partnership with its neighbouring councils with the aim of not only delivering savings through joint working, but also to improve resilience and performance.
Government Led Issues	Brexit; the 2019 Spending Review and Fair Funding Review; the sustainability of the NHB scheme and what will follow; proposed move to 100% Business Rates Retention scheme; Welfare Reform and cessation of the administration of housing benefits for working age claimants in the lead up to the introduction of Universal Credit; the ongoing impact of the localisation of council

	<p>tax support; and proposals to transfer the Land Charges function to HM Land Registry and to devolve the setting of planning fees will impact on the Council's finances in-year and over the medium to longer term. The increased volatility and uncertainty attached to a number of these issues is such that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections. As a result we will need to closely monitor the impact of these issues on the Council's finances.</p>
Savings and Transformation Contributions	<p>Latest projections point to a 'funding gap' between expenditure and income of £550,000 to be addressed over the period of the MTFS. It should also be noted dependent on the outcome of the 2019 Spending Review and the Fair Funding Review and what happens to NHB further savings and transformation contributions could be required.</p> <p>The Council is able to break the required savings and transformation contributions into "tranches" to enable more measured steps to be taken and give time for the 2019 Spending Review and the Fair Funding Review to be concluded.</p> <p>In the coming months, options to deliver a further tranche of the required savings and transformation contributions will need to be considered, agreed and actioned under the framework set out in the Savings and Transformation Strategy.</p> <p>In addition, the Management Team will continue to seek efficiency savings in the delivery of existing services.</p>

These assumptions and changing circumstances will require the Strategy to be reviewed and updated at least annually.

Two key questions remain to be answered.

What will our business rates baseline and baseline funding level be under an 'interim' 75% and 'eventual' 100% Business Rates Retention scheme, and how will this compare to that reflected in the MTFS taking into account transfer of any new responsibilities?

What is the extent to which NHB will feature in future government grant funding and if replaced what level of funding would we receive in its place?

The answers to these questions are fundamental for the ongoing financial planning for this Council.

Adequacy of Reserves

The minimum prudent level of reserves that the Council should maintain is a matter of judgement. It is the Council's safety net for unseen or other circumstances. The minimum level cannot be judged merely against the current risks facing the Council as these can and will change over time. The objective is to retain a minimum of £3.0m (was £2.0m) in the General Revenue Reserve by the end of the strategy period and given below are areas of operational and financial risk (not exhaustive) considered in determining the appropriate minimum level.

- Brexit
- Interest Rate volatility
- Income volatility
- Change to Government Grant including New Homes Bonus
- Identified savings not being delivered in the required timescales
- Localisation of council tax support
- Business rates retention scheme and associated volatility of income
- Planning Inquiries
- Partnership Working
- Emergencies
- Economic and world recession
- Poor performance on Superannuation Fund
- Bankruptcy / liquidation of a major service partner
- Closure of a major trading area, e.g. leisure centre for uninsured works
- Cyber/data loss
- Problems with computer systems causing shortfall or halt in collection performance
- Government Legislation
- Ability to take advantage of opportunities
- Uninsured risks

Clearly, the minimum General Revenue Reserve balance needs to and will be kept under regular review. The General Revenue Reserve balance at 31 March 2029 is estimated to be £6.99m based on an increase in council tax of 2.99% for 2019/20 with the Council working to a balanced budget.

In addition, a number of Earmarked Reserves exist to cover items that will require short-term revenue expenditure in the near future.

The Revenue Reserve for Capital Schemes is established to finance future capital expenditure. A funding statement illustrates that recourse to borrowing to fund capital expenditure is unlikely before 2025/26. The Revenue Reserve for Capital Schemes balance at 31 March 2025 is estimated to be £3.522m.

A schedule of the reserves held as at 1 April 2018 and proposed utilisation of those reserves to 31 March 2020 is provided in Annex 17b.

Balances held generate interest receipts which support, underpin and contribute towards meeting the objectives of the Strategy.

Financial Resilience Index 2018

The Financial Resilience Index 2018 produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) aims to provide a tool with a group of indicators able to illustrate the trajectory of an authority's financial position within the context of each authority's own comparator tier or nearest neighbours group. CIPFA has designed the index to provide reassurance and prompt challenge where it may be needed.

There are no particular concerns from a review of the Financial Resilience Index 2018 for this Council at this time. A copy of the Index (tier comparator) is attached at Annex 17c.

Opinion

I am of the opinion that the approach taken in developing the 2019/20 budget meets the requirements contained in the Local Government Act 2003 to ensure the robustness of the estimates and the adequacy of the reserves.

Signed: 

Date: 14 February 2019

Director of Finance and Transformation, BSc (Hons) FCPFA